

MACON TOWNSHIP

Britton, Michigan

FINANCIAL STATEMENTS

**For The Year Ended
March 31, 2008**



REHMANN ROBSON

Certified Public Accountants

MACON TOWNSHIP

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

September 4, 2008

Township Board
Macon Township
Britton, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the remaining fund information of ***Macon Township, Michigan***, as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the major fund, and the remaining fund information of Macon Township, Michigan, as of March 31, 2008, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Township has elected not to present Management's Discussion and Analysis as required supplementary information. The GASB has determined that such information is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Macon Township's basic financial statements. The schedule and the individual fund financial statement listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

BASIC FINANCIAL STATEMENTS

MACON TOWNSHIP
Statement of Net Assets and General Fund Balance Sheet
March 31, 2008

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
Assets			
Cash and cash equivalents	\$ 112,355	-	\$ 112,355
Investments	211,843	-	211,843
Taxes receivable	132,686	-	132,686
Due from other governments	15,557	-	15,557
Property and equipment	-	20,983	20,983
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u><u>\$ 472,441</u></u>	<u><u>\$ 20,983</u></u>	<u><u>\$ 493,424</u></u>
 Fund Balance/Net Assets			
Fund balances:			
Unreserved			
Designated for subsequent year's expenditures	40,256	(40,256)	-
Undesignated	432,185	(432,185)	-
	<u> </u>	<u> </u>	<u> </u>
Total fund balance	<u><u>472,441</u></u>	<u><u>(472,441)</u></u>	<u><u>-</u></u>
 Net Assets:			
Investment in capital assets		20,983	20,983
Unrestricted		472,441	472,441
		<u> </u>	<u> </u>
Total net assets		<u><u>\$ 493,424</u></u>	<u><u>\$ 493,424</u></u>

The accompanying notes are an integral part of these financial statements.

MACON TOWNSHIP
Reconciliation of General Fund Balance Sheet
to Statement of Net Assets
March 31, 2008

Fund balance - General Fund	\$ 472,441
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	<u>20,983</u>
Net assets of governmental activities	<u><u>\$ 493,424</u></u>

The accompanying notes are an integral part of these financial statements.

MACON TOWNSHIP
Statement of Activities and General Fund Revenues,
Expenditures and Changes in Fund Balance
For the Year Ended March 31, 2008

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Revenues			
Taxes	\$ 132,307	\$ -	\$ 132,307
Licenses and permits	4,580	-	4,580
Intergovernmental revenue	102,442	-	102,442
Charges for services	2,011	-	2,011
Interest revenue	7,476	-	7,476
Miscellaneous revenue	761	-	761
	<hr/>	<hr/>	<hr/>
Total revenues	249,577	-	249,577
	<hr/>	<hr/>	<hr/>
Expenditures/Expenses			
General government	136,195	1,179	137,374
Public safety	24,045	-	24,045
Highways and streets	53,854	-	53,854
Planning	8,675	-	8,675
	<hr/>	<hr/>	<hr/>
Total expenditures/expenses	222,769	1,179	223,948
	<hr/>	<hr/>	<hr/>
Change in fund balance	26,808	26,808	
	<hr/>	<hr/>	<hr/>
Change in net assets		(1,179)	25,629
	<hr/>	<hr/>	<hr/>
Fund Balance/Net Assets, beginning of year	445,633	22,162	467,795
	<hr/>	<hr/>	<hr/>
Fund Balance/Net Assets, end of year	<u>\$ 472,441</u>	<u>\$ 20,983</u>	<u>\$ 493,424</u>

The accompanying notes are an integral part of these financial statements.

MACON TOWNSHIP
Reconciliation of the General Fund Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities
For the Year Ended March 31, 2008

Net change in fund balance - General Fund	\$ 26,808
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Deduct - depreciation expense	<u>(1,179)</u>
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Change in net assets of governmental activities	<u><u>\$ 25,629</u></u>
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The accompanying notes are an integral part of these financial statements.

MACON TOWNSHIP

Statement of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund For the Year Ended March 31, 2008

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues			
Taxes	\$ 127,024	\$ 132,307	\$ 5,283
Licenses and permits	3,000	4,580	1,580
Intergovernmental revenue	100,000	102,442	2,442
Charges for services	1,710	2,011	301
Interest revenue	468	7,476	7,008
Miscellaneous revenue	-	761	761
	<hr/>	<hr/>	<hr/>
Total revenues	232,202	249,577	17,375
	<hr/>	<hr/>	<hr/>
Expenditures			
General government	135,453	136,195	(742)
Public safety	31,117	24,045	7,072
Highways and streets	85,000	53,854	31,146
Planning	9,500	8,675	825
	<hr/>	<hr/>	<hr/>
Total expenditures	261,070	222,769	38,301
	<hr/>	<hr/>	<hr/>
Revenues over (under) expenditures	(28,868)	26,808	55,676
	<hr/>	<hr/>	<hr/>
Fund balance, beginning of year	445,633	445,633	-
	<hr/>	<hr/>	<hr/>
Fund balance, end of year	<u>\$ 416,765</u>	<u>\$ 472,441</u>	<u>\$ 55,676</u>

The accompanying notes are an integral part of these financial statements.

MACON TOWNSHIP
Statement of Fiduciary Net Assets
Current Tax Collections Agency Fund
March 31, 2008

ASSETS

Assets

Cash and short-term investments	<u>\$ 205,837</u>
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LIABILITIES

Liabilities

Due to others	<u>\$ 205,837</u>
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The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

MACON TOWNSHIP, MICHIGAN

Notes To Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

Macon Township (the “government” or “Township”) is a municipal corporation governed by an elected supervisor and a four-member board. The Township has adopted the position of the Governmental Accounting Standards Board (GASB) Statement #14 regarding the definition of reporting entity and has determined that no entities should be consolidated into the financial statements as component units. The criteria for including a component unit include significant operational or financial relationships with the government.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. Governmental activities are supported by charges for services and intergovernmental revenues.

A combined financial statement is provided for the general fund and the statement of net assets and the general fund and the statement of activity. The general fund is considered to be a major fund for financial reporting purposes.

Separate financial statements are provided for the fiduciary fund, even though the latter are excluded from the government-wide financial statements.

C. Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The agency fund also uses the accrual basis of accounting, but does not have a measurement focus.

MACON TOWNSHIP, MICHIGAN

Notes To Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the government receives cash.

The government reports the following major governmental fund:

The *general fund* is used to account for all financial transactions not accounted for in another fund. Revenues are derived primarily from property taxes and State distributions, grants and other intergovernmental revenues. The *general fund* accounts for the general operating expenditures not recorded elsewhere.

Additionally, the government reports the following fund type:

The *agency fund* accounts for assets held for other governments in an agency capacity.

D. Assets, liabilities and net assets/equity

1. Deposits and investments

The government's cash is considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers' acceptances, and mutual funds composed of otherwise legal investments.

MACON TOWNSHIP, MICHIGAN

Notes To Financial Statements

2. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), if any, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of 3 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (general fund) column.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	25-50
Furniture and Equipment	5-15

3. *Compensated absences*

All Township employees are working on a part-time basis and, therefore, no sick time or vacation time benefits are paid to the employees.

4. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

MACON TOWNSHIP, MICHIGAN

Notes To Financial Statements

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted at the activity level for the governmental fund type each fiscal year on a basis consistent with generally accepted accounting principles. The government's final budget must be prepared and adopted prior to April 1st of each year.

Reported budgeted amounts are as originally adopted or as amended by the Township Board. The legal level of budgetary control is the activity level.

The government does not utilize encumbrance accounting.

B. Excess of expenditures over appropriations

P. A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended March 31, 2008, the government incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
General government -			
Professional services	\$ 10,000	\$ 10,373	\$ 373
Miscellaneous	30,290	35,435	5,145

MACON TOWNSHIP, MICHIGAN

Notes To Financial Statements

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$234,531 of the District's bank balance of \$530,035 was exposed to custodial credit risk because it was uninsured and uncollateralized. The book balance for these deposits was \$530,035.

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets to deposits and investments as classified for note disclosure purposes is as follows:

Statement of Net Assets:

Cash and cash equivalents	\$ 112,355
Investments	<u>211,843</u>
	324,198

Statement of Fiduciary Net Assets:

Agency Fund - Cash	<u>205,837</u>
Total	<u>\$ 530,035</u>

Classification of Deposit and Investments:

Bank deposits (checking accounts, savings accounts and CDs)	<u>\$ 530,035</u>
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The Township's investment policy does not differ from state statute.

MACON TOWNSHIP, MICHIGAN

Notes To Financial Statements

B. Capital assets

Capital assets activity for the year ended March 31, 2008, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated				
Building and improvements	\$ 47,165	\$ -	\$ -	\$ 47,165
Furniture and equipment	15,577	-	-	15,577
Total capital assets being depreciated	62,742	-	-	62,742
Less accumulated depreciation for:				
Building and improvements	26,180	1,179	-	27,359
Furniture and equipment	14,401	-	-	14,401
Total accumulated depreciation	40,580	1,179	-	41,759
Total capital assets being depreciated, net	\$ 22,162	\$ (1,179)	\$ -	\$ 20,983

Depreciation expense was charged to the function "General government".

IV. OTHER INFORMATION

A. Property taxes

Real and personal property taxes are recorded as revenue in the year for which they are levied, provided they are collectible during that year or within 60 days following that year's end. Property tax revenues shown in the General Fund reflect the 2007 Township levies. The Township's general operating tax rate was .7999 mills, .9676 mills for the Township Roads and .4929 mills for fire operating. Taxable values are established annually by the County and are equalized by the State at an estimated 50% of current market value or \$58,633,926. The 2007 levy became a lien on properties on December 1, 2006, and was substantially collected in early 2008. Taxes became delinquent on March 1, 2008.

**GENERAL FUND SCHEDULE
AND INDIVIDUAL FUND STATEMENT**

MACON TOWNSHIP
General Fund
Schedule of Expenditures, Compared to Budget
For the Year Ended March 31, 2008

	Original Budget	Amended Budget	Actual	Variance - Favorable (Unfavorable)
General government				
Township Board	\$ 4,424	\$ 4,424	\$ 3,740	\$ 684
Supervisor	16,496	16,496	16,496	-
Clerk	14,003	14,003	13,068	935
Professional services	10,000	10,000	10,373	(373)
Treasurer	14,003	14,003	13,777	226
Assessor	13,080	13,080	13,080	-
Inspectors	7,000	7,000	5,205	1,795
Township Hall Caretaker	2,732	2,732	2,732	-
Board of Review	1,550	1,550	1,286	264
Cemetery	16,375	16,375	14,375	2,000
Drains	5,500	5,500	5,275	225
Miscellaneous	30,290	30,290	35,435	(5,145)
Total general government	135,453	135,453	136,195	(742)
Public safety				
Fire	31,117	31,117	24,045	7,072
Highways and streets	85,000	85,000	53,854	31,146
Planning				
Zoning	9,500	9,500	8,675	825
Total appropriations and expenditures	<u>\$ 261,070</u>	<u>\$ 261,070</u>	<u>\$ 222,769</u>	<u>\$ 38,301</u>

MACON TOWNSHIP
Statement of Changes in Assets and Liabilities
Current Tax Collections Agency Fund
For the Year Ended March 31, 2008

	<u>Balance - Beginning of year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance - End of year</u>
Assets				
Cash and investments	<u>\$ 178,124</u>	<u>\$ 761,615</u>	<u>\$ 733,902</u>	<u>\$ 205,837</u>
 Liabilities				
Due to others	<u>\$ 178,124</u>	<u>\$ 761,615</u>	<u>\$ 733,902</u>	<u>\$ 205,837</u>



REHMANN ROBSON

Certified Public Accountants

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September 4, 2008

To the Township Board
Macon Township
Britton, Michigan

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the ***Macon Township*** (the "Township") for the year ended March 31, 2008, and have issued our report thereon dated September 4, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated July 22, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the *Township*. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on June 23, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Township are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management:

- 1) Record effect of prior year and accrual of current year state shared revenue
- 2) Record property tax revenue and receivable
- 3) Record amount due to general fund from tax collection fund for current year tax collections

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 4, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the *Macon Township* and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lehmann Johnson", written in a cursive style.

Macon Township

Comments and Recommendations

For the Year Ended March 31, 2008

In planning and performing our audit of the financial statements of the Macon Township (the "Township") as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider certain deficiencies, as described below, to be significant deficiencies in internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. The significant deficiencies described below are not considered to be material weaknesses.

Significant Deficiencies

Preparation of Financial Statements in Accordance with GAAP

Criteria: The preparation of financial statements in accordance with GAAP is the responsibility of the Township's management and requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting financial statements including the related footnotes (i.e., external financial reporting.)

Macon Township

Comments and Recommendations (Continued)

For the Year Ended March 31, 2008

Condition: As is the case with many smaller and medium-sized entities, the Township has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the Township's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the Township's internal controls.

Cause: This condition was caused by management's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Township to perform this task internally.

Effect: As a result of this condition, the Township lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

Audit adjustments

Criteria: The Township is responsible for the reconciliation of all general ledger accounts to their proper underlying balances for the purpose of creating a reasonably adjusted trial balance, from which the basic financial statements are derived.

Condition: During the course of the audit, there were several adjusting journal entries posted to the original "adjusted" trial balance we received. These entries were comprised of entries initiated by the auditors. Specific and significant material items that required correction included property tax revenue as well as state shared revenue.

Cause: The Township relies on its external auditors to assist with certain closing adjustments.

Effect: As a result of this condition, the Township's accounting records were initially misstated by amounts material to the financial statements and significant audit adjustments were necessary in order to properly record revenue and receivables related to property taxes and state shared revenue.

Macon Township

Comments and Recommendations (Concluded)

For the Year Ended March 31, 2008

Other Matters

Segregation of Duties

Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the Township's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the Township's unique circumstances.

As is the case with many organizations of similar size, Macon Township lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Essentially, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the non-profit environment. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitation on the effectiveness of an organization's internal controls carries with it a greater risk of fraud and abuse.

As stated previously, the establishing and maintaining of internal controls is the responsibility of management. As the Township's independent external auditors, we are specifically banned by professional standards from performing any management functions. In other words, the annual audit is not a part of the Township's internal control structure, and cannot not be relied upon as part of *management's* systems to deter or detect fraud and abuse.

Road and Fire Millages:

The Township presently records revenues and expenditures for its Road and Fire Millages in the General Fund. Normally, these activities are shown in separate funds. If the Township continues to show these activities in the General Fund, there should be a system to track monies not spent on road and fire activities from year to year, as this millage revenue is restricted.

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